

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
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FISCAL IMPACT STATEMENT

LS 6286

BILL NUMBER: HB 1032

DATE PREPARED: Nov 6, 2001

BILL AMENDED:

SUBJECT: Sales Tax Holiday.

FISCAL ANALYST: John Parkey

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FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

| STATE IMPACT | FY 2002 | FY 2003 | FY 2004 |
|-------------------------|---------|-------------|-------------|
| State Revenues | | (7,400,000) | (7,600,000) |
| State Expenditures | | | |
| Net Increase (Decrease) | | (7,400,000) | (7,600,000) |

Summary of Legislation: This bill provides a sales tax exemption each year for school supplies and articles of clothing priced at less than \$100 each that are purchased during the ten-day period beginning on the first Friday in August.

Effective Date: July 1, 2002.

Explanation of State Expenditures: This proposal could increase the administrative costs of the Department of State Revenue, however, any increase is expected to be absorbed using existing staff and resources.

Explanation of State Revenues: This proposal may result in a reduction of revenue collected from the Gross Retail (Sales) Tax on clothing and school supplies. This bill is expected to reduce state Sales Tax revenue by **\$7.4 M** in FY 2003 and **\$7.6 M** in FY 2004.

Background: Based on historical data from the Bureau of Labor Statistics, *Consumer Expenditure Survey*, it is estimated that the sales tax on clothing under \$100 will generate about \$498,000 in sales tax revenue each day during the exemption period in August of FY 2003. Since this exemption will last for ten days, the expected loss of revenue from clothing will be approximately \$5 M. In addition to the exemption on clothing,

the bill also exempts certain school supplies from the Sales Tax. Adjusted survey data from industry sources suggest that the exemption on school supplies will reduce the state's Sales Tax revenue by approximately \$2.4 M in FY 2003.

Because of the timing of this proposal, school supplies and textbooks purchased by college students were not included in the estimated loss. However, if this sales tax exemption were to induce college students to purchase their books and supplies early, the impact of the provision would increase. If students opted to purchase 25% of their fall semester books and supplies during the exemption period, the impact would increase by approximately \$1 M.

The estimates above are based on historical data and projected growth. They do not consider any increased sales that may result from an incentive caused by the proposed exemption. The loss of sales tax revenue may be partially mitigated by increased taxable sales of other items, such as meals or other taxable items not included in this exemption.

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Commuter Rail Service Fund (0.17%), and the Industrial Rail Service Loan Fund (0.04%).

The reductions in these funds for FY 2003 are estimated to be:

| | |
|----------------------------------|--------------|
| State General Fund: | \$ 4,379,000 |
| Property Tax Replacement Fund: | \$ 2,968,000 |
| Public Mass Transportation Fund: | \$ 56,000 |
| Commuter Rail Service Fund: | \$ 13,000 |
| Industrial Rail Service Fund: | \$ 3,000 |
| Total | \$ 7,419,000 |

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: U.S. Bureau of Labor Statistics, *Consumer Expenditure Survey*; U.S. Census Bureau; School and Home Office Products Association; National Association of College Stores, *NACS Industry Financial Report 2001*.